

# DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268

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Postal Rate and Fee Changes, 1997  
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Docket No. R97-1

## RIAA, ET AL. TRIAL BRIEF

Recording Industry Association of America and Advertising Mail Marketing Association ("RIAA, et al.") submit this Trial Brief in accordance with the schedule established for the submission of briefs concerning the case in chief of Intervenor.

Through the testimony submitted by Gary M. Andrew, RIAA, et al. challenges the basis on which Postal Service Witness Crum calculates the cost differential between Standard Mail (A) flats and parcels, a cost differential subsequently invoked by Postal Service Witness Moeller in his advocacy of a 10 cent "shape based" surcharge on mail that is neither letter nor flat shaped or is prepared as a parcel. There are several elements to Dr. Andrew's analysis, each of which is briefly addressed in the following discussion.

Dr. Andrew first criticizes the Crum/Moeller approach for its failure to account for the fact that, at current surcharge-free rates, parcels pay substantially more than flats for delivery through the mail because of the average higher weight of parcels. Using a methodology analogous to that employed by Mr. Crum in calculating the respective average cost per piece of flats and parcels, Dr. Andrew calculated the average revenue from Standard (A) commercial parcels as 44.18 cents per piece and commercial flats at

19.04 cents per piece for a difference of 25.14 cents per piece.<sup>1/</sup> See RIAA, et al.-T-1 at 7, Table 1. Dr. Andrew also derived the average weight per piece for Standard (A) parcel and flat mail and found commercial parcels to be, on average, 5.06 ounces per piece heavier than flats. Id. at 8, Table 2.<sup>2/</sup> From this Dr. Andrew concludes that "At the 1996 rates these weight differences account for a portion of the difference in revenue." Id. at 8, ll. 24-25. The wisdom of this conclusion is underscored by the fact that, at least within some ranges of size of parcels and flats may have identical shape characteristics. See, e.g., Tr. 7/3159 l.-4-3163 l. 3. Coupled with the Postal Service's imperfect understanding of the interrelationship of shape and weight when analyzing cost causation (see, e.g., Tr. 5/2343 l. 13-2347 l. 10), it seems not just possible, but highly plausible that some of the cost differences between flats and parcels as measured by Mr. Crum are now being fully compensated by rate recognition of the weight differential between the two categories of pieces. Dr. Andrew urges that the substantial revenue difference between parcels and flats be applied to reduce Mr. Crum's measurement of cost differences between the two categories of mail.

Dr. Andrew also urges that the Postal Service's measurement of the differences in mail processing costs between flats and parcels is wrong because of an error made by Postal Service Witness Crum in using the attribution/distribution factors developed by Witnesses Bradley and Smith. Using the restated mail processing cost differences

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<sup>1/</sup> For the combined categories of Standard (A) commercial and non-profit parcels and flats, the difference in revenues is 24.60 cents per piece.

<sup>2/</sup> The difference for the combination of commercial and non-profit parcels and flats is 5.03 ounces.

developed by Dr. Andrew shows that Mr. Crum has overstated the difference in cost between parcels and flats by 2.3 cents per piece. RIAA et al.-T-1 at 17, Table 5.

In developing his measure of differences between parcel and flat costs, Mr. Crum uses a measure of parcel density of 8.1 pounds per cubic foot, a density very significantly lower than the 14.9 pound per cubic foot density found in the density study used by the Postal Service in Docket No. MC95-1. Employing “[r]ecent research in the physics of granular materials” (RIAA et al.-T-1 at 23 l. 3 (footnote omitted)) Dr. Andrew demonstrates that the methodology employed in the more recent density study is likely to be biased in a way that will result in a lower estimate of densities. This conclusion is supported by an informal survey conducted of members of the associations sponsoring Dr. Andrew’s testimony that yielded a density of 29.9 pounds per cubic foot. Id. at 25 l. 18. Dr. Andrew does not contend for the adoption of the informal mailer survey data, but urges that those data support the use of the MC95-1 density study rather than that more recently completed. Using the more reliable density figures reduces Mr. Crum’s measure of cost differences between parcels and flats by a further 3.3 cents per piece. Id. at 27 l. 19.

These three overestimations of the difference in net cost to the Postal Service of delivering parcels and flats lead Dr. Andrew to conclude that

The maximum surcharge for parcels that can be justified using Witness Crum’s methodology and available data is 3.2 cents per piece (33.4 cents per piece less the revenue differential of 24.6 cents per piece, the overstatement in mail process[ing] costs of 2.3 cents per piece and the overstatement of transportation and vehicle service drivers costs of 3.3 cents per piece).

Id. at 4 ll. 18-22.

This assumes the use of Mr. Crum's cost measurement methodology, a course that is freighted with uncertainty. That uncertainty probably cuts in both directions. Mr. Crum's distribution of transportation and related costs to parcels is arguably significantly too high because the density measurement of even the MC95-1 density study may well be substantially too low. Contrarily, some of the revenue differential calculated by Dr. Andrew may be correctly explained as both shape and weight related because of correlations between shape and weight. This might justify a further reduction in the pound rate and some shape surcharges. What seems clear is that more study of shape based cost differences is not just appropriate, but imperative.

Mindful of this uncertainty, RIAA, et al. asked Dr. Andrew to calculate the smallest surcharge that could be applied without requiring adjustments to the full range of base rates proposed by Witness Moeller. The number derived was 8.9 cents per piece. Id. at ll. 27-28. A surcharge in this range may be justifiable during the pendency of more focused study of the issue of net shape-based differences in the cost to the Postal Service of delivering flats and parcels.

RIAA, et al. have also submitted the testimony of Joe Monastro (RIAA, et al.-T-2) to address a separate problem associated with the Postal Service's treatment of parcels sent through the mail. Through this testimony, Mr. Monastro proposes the establishment of Bulk Merchandise Re-Deposit Service which will enable parcel shippers (of all classes) "to retrieve merchandise that has been opened by the consumer, re-sealed and re-deposited in the mail without postage." RIAA, et al.-T-2 at 1. As Mr. Monastro explains, the Postal Service does not now have a service that

would enable high volume parcel shippers to effectively retrieve merchandise that, “for whatever reason, the customer decides he or she did not want and re-deposits in the mail without postage.” *Id.* at 4. Despite the fact that these parcels carry a “return postage guaranteed” endorsement -- thus, leading the customer to believe that return postage will be paid -- the Postal Service does not regard the endorsement as operative once the piece has actually been delivered to the intended recipient.

Mr. Monastro further points out that merchandise return label service is costly to the mailer and cumbersome for use by consumers who are unwilling to go to the trouble of requesting a merchandise return label in the case of moderately priced items like books, records, cosmetics and the like. There is thus a “gap,” as Mr. Monastro puts it, in the Postal Service’s system for dealing with parcels that consumers wish to return. The consequences of this gap are costly to the Postal Service, and to parcel shippers and defeat consumer expectations. *RIAA, et al.*-T-2 at 4-5. The proposed Bulk Merchandise Re-Deposit Service is intended to fill this gap. The specific classification language accompanies Mr. Monastro’s testimony. As the testimony explains and the proposed classification language shows, the proposal is modeled very closely after the Bulk Parcel Return Service recommended by the Commission in 1997. In order to make the service cost effective to the Postal Service, the service would be available only to mailers who could meet minimum volume commitments. Although optional, the service would only be available to parcels that are also endorsed for return postage guaranteed which means that mail undeliverable as addressed as well as resealed parcels will be integrated, transported and returned to the mailer, providing the Postal

Service with economies of integration and administration and, at the same time, greatly reducing the volume of merchandise that ends up being sold by the Postal Service at auction. In common with other services involving return of mail, the mailer would be required to pay an annual permit fee; returned re-sealed parcels would be rated at the applicable single piece rate thus providing the Postal Service with more than a sufficient margin to assure that no other category of mailer is burdened by the new service.

Respectfully submitted,



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February 10, 1998

**CERTIFICATE OF SERVICE**

I hereby certify that I have on this date served this document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

A handwritten signature in black ink, appearing to read 'N. Frank Wiggins', written over a horizontal line.

N. Frank Wiggins

DATE: February 10, 1998